

CITY OF ECORSE HOUSING COMMISSION
ECORSE, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Ecorse Housing Commission	County
Audit Date 6/30/04	Opinion Date 11/16/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the ~~Uniform Reporting~~ **Uniform Reporting** Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

MAR 14 2006

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

LOCAL AUDIT & FINANCE DIV.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name)

Sailor, Khan & Co.

Street Address

P.O. Box 16180

City

St. Louis

State

Mo

ZIP

63105

Accountant Signature

[Signature]

Date

CITY OF ECORSE HOUSING COMMISSION
Ecorse, Michigan

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
City of Ecorse Housing Commission
Ecorse, Michigan

We have audited the accompanying basic financial statements of the City of Ecorse Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the weak condition of the Commission's records as they relate to invoices and other supporting accounting records, we were unable to validate certain expenditures, contracts and submission of PHAS certification. In addition, we were unable to determine the validity of these financial transactions through the use of alternative procedures. The Housing Commission's management also refused to sign the client representation letter and the attorney representation letter was not received.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to determine the validity of certain expenditures, contracts and submission of PHAS certification and had we received the client and attorney representation letters, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Ecorse Housing Commission, Michigan, as of June 30, 2004, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

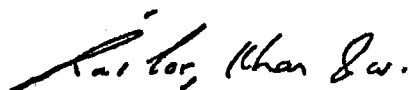
In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2005, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages iii to vii is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Sailor

Khan & Co.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining accompanying supplemental information including the Financial Data Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the matters discussed in the third paragraph, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to determine the validity of certain expenditures, contracts and submission of PHAS certification and had we received the client and attorney representation letters, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Sailor, Khan & Co.
November 16, 2005

City of Ecorse Housing Commission

Management's Discussion and Analysis (MD&A)

June 30, 2004

(Unaudited)

The City of Ecorse Housing Commission (the Commission) is a non-profit entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal Agencies.

This section of the Ecorse Housing Commission (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on June 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of June 30, 2004 were \$5,335,733. The net assets decreased by \$817,818, a decrease of 13.3% over the prior year.

Revenues and contributions for the Commission were \$850,323 for the year ended June 30, 2004. This was a decrease of \$277,525 or 24.6% from the prior year.

Expenses for the Commission were \$1,668,141 for the year ended June 30, 2004. This was an increase of \$280,754 or 20.2% from the prior year.

HUD operating grants was \$581,620 for the year ended June 30, 2004. This was a decrease of \$117,449 or 16.8% over the prior year. Capital contributions for the Commission were zero for the year ended June 30, 2004. This was a decrease of \$139,694 or 100.0% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Management's Discussion and Analysis (MD&A) - Continued

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Required Financial Statements

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended June 30, 2004 and is required to be included in the audit reporting package.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$5,335,733 at the close of the year ended June 30, 2004 down from \$6,153,551 in 2004. The decrease in net assets of \$817,818 was due to the change in net assets for the year.

The unrestricted net assets were a negative \$169,834 as of June 30, 2004. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF NET ASSETS
JUNE 30,**

	<u>2004</u>	<u>2003</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 205,615	\$ 522,920	\$ (317,305)	-60.7%
Capital assets	<u>5,505,567</u>	<u>5,973,331</u>	<u>(467,764)</u>	-7.8%
Total Assets	<u>5,711,182</u>	<u>6,496,251</u>	<u>(785,069)</u>	-12.1%
Current liabilities	<u>375,449</u>	<u>342,700</u>	<u>32,749</u>	9.6%
Total Liabilities	<u>375,449</u>	<u>342,700</u>	<u>32,749</u>	9.6%
Net Assets				
Invested in capital assets	5,505,567	5,973,331	(467,764)	-7.8%
Unrestricted	<u>(169,834)</u>	<u>180,220</u>	<u>(350,054)</u>	-194.2%
Total Net Assets	<u>\$ 5,335,733</u>	<u>\$ 6,153,551</u>	<u>\$ (817,818)</u>	-13.3%

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page total revenues and contributions decreased by \$277,525 due to decreases in rental revenues, HUD operating grants, interest income, capital contributions and other income.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
JUNE 30,**

	<u>2004</u>	<u>2003</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues and Contributions				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 254,327	\$ 271,602	(17,275)	-6.4%
HUD operating grants	581,620	699,069	(117,449)	-16.8%
Interest income	1,320	2,236	(916)	-41.0%
Capital Contributions	---	139,694	(139,694)	-100.0%
Other income	<u>13,056</u>	<u>15,247</u>	<u>(2,191)</u>	-14.4%
Total Revenues and Contributions	<u>850,323</u>	<u>1,127,848</u>	<u>(277,525)</u>	-24.6%
Expenses				
Personal services	318,951	301,560	17,391	5.8%
Utilities	122,602	135,919	(13,317)	-9.8%
Operations and maintenance	495,351	308,154	187,197	60.7%
Insurance	77,340	55,374	21,966	39.7%
Payment in lieu of taxes	12,489	13,568	(1,079)	-8.0%
Other supplies and expenses	173,643	175,862	(2,219)	-1.3%
Depreciation	<u>467,765</u>	<u>396,950</u>	<u>70,815</u>	17.8%
Total Expenses	<u>1,668,141</u>	<u>1,387,387</u>	<u>280,754</u>	20.2%
Change in net assets	(817,818)	(259,539)	(558,279)	
Beginning net assets	<u>6,153,551</u>	<u>6,413,090</u>	<u>(259,539)</u>	
Ending net assets	\$ <u>5,335,733</u>	\$ <u>6,153,551</u>	\$ <u>(817,818)</u>	

Total expenses for the Commission increased for the year by \$280,754 due to increases in personal services, operations and maintenance, insurance, and depreciation. These increases were slightly offset by decreases in utilities and other supplies and expenses.

Management's Discussion and Analysis (MD&A) - Continued

CAPITAL ASSETS

Capital Assets - The Ecorse Housing Commission's investment in capital assets, as of June 30, 2004 amounts to \$5,505,567 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION June 30, 2004

	2004	2003	Dollar Change
Land	\$ 494,047	\$ 494,047	\$ ----
Building	10,399,055	10,313,627	85,428
Furniture, equipment and machinery- dwelling	142,487	142,487	----
Furniture, equipment and machinery- administration	263,394	263,394	----
Leasehold improvements	1,666,388	1,376,517	289,871
Construction in progress	-----	375,299	(375,299)
	12,965,371	12,965,371	----
Accumulated depreciation	7,459,804	6,992,040	467,764
Total	\$ <u>5,505,567</u>	\$ <u>5,973,331</u>	\$ <u>(467,764)</u>

The total decrease in the Commission's capital assets for the current fiscal year was \$467,764 or 7.8% in terms of net book value. The Commission has \$326,404 available in Capital Funds to draw down and spend in the future.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations; therefore, the Housing Commission is affected more by the Federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2005 Federal budget.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Executive Director, City of Ecorse Housing Commission, 266 Hyacinth, Ecorse, Michigan 48229.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATEMENT OF NET ASSETS

June 30, 2004

ASSETS

Current Assets:

Cash and cash equivalents	\$ 78,369.88
Investments	100,700.58
Receivable - net of allowances:	
Accounts	21,443.11
Prepaid expenses	<u>5,102.00</u>
Total Current Assets	<u>205,615.57</u>

Noncurrent Assets:

Capital assets:

Land, improvements, and construction in progress	494,046.82
Other capital assets, net of depreciation	<u>5,011,519.70</u>
Total capital assets- net	<u>5,505,566.52</u>
Total Noncurrent Assets	<u>5,505,566.52</u>

Total Assets \$ 5,711,182.09

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 327,798.24
Accrued salaries, wages and benefits	11,451.56
Accrued compensated absences	4,448.00
Tenant security deposit liability	29,712.00
Deferred revenues	<u>2,039.23</u>
Total Current Liabilities	<u>375,449.03</u>

Total Liabilities 375,449.03

NET ASSETS

Invested in capital assets	5,505,566.52
Unrestricted	<u>(169,833.46)</u>
Total Net Assets	<u>5,335,733.06</u>
Total Liabilities and Net Assets	<u>\$ 5,711,182.09</u>

See notes to financial statements

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended June 30, 2004

Operating Revenues:	
Rental revenue	\$ 254,326.74
Operating subsidies- HUD grants	581,619.57
Other revenues	<u>13,055.57</u>
Total operating revenues	<u>849,001.88</u>
Operating Expenses:	
Personal services	318,951.60
Utilities	122,601.63
Operations and maintenance	495,350.67
Insurance	77,339.84
Payment in lieu of taxes	12,489.20
Other supplies and expenses	173,643.36
Depreciation	<u>467,764.60</u>
Total operating expenses	<u>1,668,140.90</u>
Operating income (loss)	<u>(819,139.02)</u>
Non-operating revenues (expenses):	
Interest and investment earnings	<u>1,320.45</u>
Net non-operating revenues (expenses)	<u>1,320.45</u>
Change in net assets	(817,818.57)
Net assets at beginning of year	<u>6,153,551.63</u>
Net assets at end of year	\$ <u><u>5,335,733.06</u></u>

See notes to financial statements

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2004

Cash flows from operating activities:

Cash received from tenants	\$ 257,795.59
Cash received from HUD grants- operating	581,619.57
Cash received from other operating activities	14,683.93
Cash payments for goods and services	(810,565.76)
Cash payments to employees-salaries	(248,309.00)
Cash payments to employees-compensated absences	1,606.00
Cash payments for employee benefit contributions	<u>(73,235.95)</u>

Net cash provided (used) by operating activities (276,405.62)

Cash flows from capital and related financing activities:

Capital contributions	<u>109,550.66</u>
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Net cash (used) for capital and related financing activities 109,550.66

Cash flows from investing activities:

Proceeds from sale of (payments) for investments	(1,164.25)
Interest and dividends	1,320.45
Receipts (payments) from tenant security deposits	<u>(1,156.00)</u>

Net cash provided (used) from investing activities (999.80)

Net increase (decrease) in cash and cash equivalents	(167,854.76)
Cash and cash equivalents at beginning of year	<u>246,224.64</u>

Cash and cash equivalents at end of year \$ 78,369.88

See notes to financial statements

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended June 30, 2004

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

Operating income (loss)	\$ (819,139.02)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	467,764.60
Allowance for doubtful accounts	(10,652.36)
Changes in assets and liabilities:	
Receivables	15,998.78
Prepaid expenses	35,716.83
Accounts and other payables	35,142.11
Deferred revenues	(249.21)
Compensated absences	1,606.00
Accrued expenses	<u>(2,593.35)</u>
Net cash provided (used) by operating activities	\$ <u>(276,405.62)</u>

See notes to financial statements

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - Summary of Significant Accounting Policies

The City of Ecorse Housing Commission (Commission) is a non-profit entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2004, the Housing Commission implemented the new financial reporting requirements of GASB Statement No 34. As a result, an entirely new financial presentation format has been implemented.

1a. Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government: Housing Commission

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB no 39, "The Financial Reporting Entity," and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1b. Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Commission's programs as an enterprise fund.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1b. Basis of Presentation (Continued)

Following is a description of the Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.

1c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

- ▶ The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2b. and 3a.

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Budgets and Budgetary Accounting

The Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Estimates and Assumptions

The Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15 - 20 years
Furniture, equipment and machinery - dwelling	7 - 15 years
Furniture, equipment and machinery - administration	7 - 10 years
Leasehold improvements	20 years

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Commission had no related debt.
- b. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses and Change in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 2 - Stewardship, Compliance, and Accountability

The Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Commission's compliance with significant laws and regulations and demonstration of its stewardship over Commission resources follows.

2a. Program Accounting Requirements

The Commission's complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of Housing and Urban Development
Capital Fund Program	U.S. Department of Housing and Urban Development

2b. Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Commission must have a written collateral agreement. As reflected in Note 3a., all deposits were fully insured or collateralized.

Investments of the Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

2c. Revenue Restrictions

The Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the year ended June 30, 2004, the Commission complied, in all material respects, with these revenue restrictions.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 3 - Detail Notes on Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3a. Cash and Investments

Deposits

The Commission's policies regarding deposits of cash are discussed in Note 1d. The table presented below is designed to disclose the level of custody credit risk assumed by the Commission based upon how its deposits were insured or secured with collateral at June 30, 2004. The categories of credit risk are defined as follows:

Category 1—Insured by FDIC or collateralized with securities held by the Commission (or public trust) or by its agent in its name

Category 2—Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name

Category 3—Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Commission's name; or collateralized with no written or approved collateral agreement

Type of Deposits	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	\$ 81,605.64	\$ 81,605.64	\$ ----	\$ ----	\$ 78,069.88
Total Deposits	\$ 81,605.64	\$ 81,605.64	\$ ----	\$ ----	\$ 78,069.88

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3a. Cash and Investments (Continued)

Investments

The Commission's policies and applicable laws regarding investments are discussed in Notes 1d. and 2b. The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at June 30, 2004. The categories of credit risk are defined as follows:

Category 1—Insured or registered with securities held by the Commission or its agent in the Commission's name

Category 2—Uninsured and unregistered with securities held by counterparty's trust department or agent in the Commission's name

Category 3—Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Commission's name

	Custody Credit Risk			Carrying Amount	Fair Value
	Category 1	Category 2	Category 3		
Certificate of Deposit	\$ 100,700.58	\$ ----	\$ ----	\$ 100,700.58	\$ 100,700.58
	<u>\$ 100,700.58</u>	<u>\$ ----</u>	<u>\$ ----</u>	<u>\$ 100,700.58</u>	<u>\$ 100,700.58</u>

3b. Accounts Receivable

Receivables detail at June 30, 2004, is as follows:

Tenant accounts receivable	\$ 12,860.32
Allowance for doubtful accounts	<u>(1,204.00)</u>
Tenants accounts receivable - net	11,656.32
Accounts receivable - HUD	<u>9,786.79</u>
	<u>\$ 21,443.11</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3c. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	(Retirements)	Transfers in (out)	Balance June 30, 2004
Land	\$ 494,046.82	\$ ----	\$ ----	\$ ----	\$ 494,046.82
Building	10,313,627.25	85,427.48	----	----	10,399,054.73
Furniture, equipment and machinery- dwelling	142,487.39	----	----	----	142,487.39
Furniture, equipment and machinery- administration	263,394.18	----	----	----	263,394.18
Leasehold improvements	1,376,517.17	----	----	289,871.06	1,666,388.23
Construction in progress	<u>375,298.54</u>	<u>----</u>	<u>(85,427.48)</u>	<u>(289,871.06)</u>	<u>----</u>
	12,965,371.35	<u>\$ 85,427.48</u>	<u>\$ (85,427.48)</u>	<u>\$ ----</u>	12,965,371.35
Accumulated depreciation	<u>6,992,040.23</u>	<u>\$ 467,764.60</u>	<u>\$ ----</u>	<u>\$ ----</u>	<u>7,459,804.83</u>
Total	<u>\$ 5,973,331.12</u>				<u>\$ 5,505,566.52</u>

3d. Accounts Payable

Payable detail at June 30, 2004, is as follows:

Vendors	\$ 301,740.71
Other government - PILOT	<u>26,057.53</u>
	<u>\$ 327,798.24</u>

3e. Compensated Absences

Accumulated unpaid compensated absences are accrued. The liability for compensated absences at June 30, 2004 is \$4,448.00.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3f. Interprogram Transactions and Balances

Interprogram Receivable/Payable

Public and Indian Housing - Low Rent	\$ 9,786.79
Capital Fund Program	<u>(9,786.79)</u>
Total	\$ <u>----</u>

NOTE 4 - Other Notes

4a. Employee Retirement Plan

Defined Contribution Plan: The Commission has also provided a defined contribution plan. The defined contribution plan is available to all full-time employees not already participating in another plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, investment earnings, and forfeitures of other participants' benefits that may be allocated to such participant's account. Benefits vest after ten (10) years of continuous service. The plan requires the City of Ecorse Housing Commission to contribute 15.83% of covered payroll. For the year ended June 30, 2004, the Commission made no payments to the retirement plan.

4b. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with Housing Authority Risk Retention Group
b. Injuries to employees (workers' compensation)	Purchased insurance with Capital Insurance Group; Claims are administered by Accident Fund Insurance Company of America
c. Physical property loss and natural disasters	Purchased commercial insurance with \$5,000 deductibles.
d. Health and life	Purchased health insurance with Blue Cross Blue Shield of Michigan; Life insurance is provided by Banker's Life Insurance

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 4 - Other Notes (Continued)

4c. Commitments and Contingencies

Commitments—Construction

At June 30, 2004, the Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
CFP 501-03	\$ <u>336,191.00</u>	\$ <u>9,786.79</u>
	\$ <u><u>336,191.00</u></u>	\$ <u><u>9,786.79</u></u>

Contingencies

The Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM

June 30, 2004

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 78,369.88	\$ ----
Investments	100,700.58	----
Receivable - net of allowances:		
Accounts	11,656.32	9,786.79
Due from (to) interprogram	9,786.79	(9,786.79)
Prepaid expenses	<u>5,102.00</u>	<u>----</u>
Total Current Assets	<u>205,615.57</u>	<u>----</u>
Noncurrent Assets:		
Capital assets:		
Land, improvements, and construction in progress	494,046.82	----
Other capital assets, net of depreciation	<u>4,931,787.39</u>	<u>79,732.31</u>
Total capital assets- net	<u>5,425,834.21</u>	<u>79,732.31</u>
Total Noncurrent Assets	<u>5,425,834.21</u>	<u>79,732.31</u>
Total Assets	\$ <u>5,631,449.78</u>	\$ <u>79,732.31</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 327,798.24	\$ ----
Accrued salaries, wages and benefits	11,451.56	----
Accrued compensated absences	4,448.00	----
Tenant security deposit liability	29,712.00	----
Deferred revenues	<u>2,039.23</u>	<u>----</u>
Total Current Liabilities	<u>375,449.03</u>	<u>----</u>
Total Liabilities	<u>375,449.03</u>	<u>----</u>
NET ASSETS		
Invested in capital assets	5,425,834.21	79,732.31
Unrestricted	<u>(169,833.46)</u>	<u>----</u>
Total Net Assets	<u>5,256,000.75</u>	<u>79,732.31</u>
Total Liabilities and Net Assets	\$ <u>5,631,449.78</u>	\$ <u>79,732.31</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2004

	PIH Drug Program	Totals
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ ----	\$ 78,369.88
Investments	----	100,700.58
Receivable - net of allowances:		
Accounts	----	21,443.11
Prepaid expenses	----	5,102.00
Total Current Assets	----	205,615.57
Noncurrent Assets:		
Capital assets:		
Land, improvements, and construction in progress	----	494,046.82
Other capital assets, net of depreciation	----	5,011,519.70
Total capital assets- net	----	5,505,566.52
Total Noncurrent Assets	----	5,505,566.52
Total Assets	\$ ----	\$ 5,711,182.09
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ ----	\$ 327,798.24
Accrued salaries, wages and benefits	----	11,451.56
Accrued compensated absences	----	4,448.00
Tenant security deposit liability	----	29,712.00
Deferred revenues	----	2,039.23
Total Current Liabilities	----	375,449.03
Total Liabilities	----	375,449.03
NET ASSETS		
Invested in capital assets	----	5,505,566.52
Unrestricted	----	(169,833.46)
Total Net Assets	----	5,335,733.06
Total Liabilities and Net Assets	\$ ----	\$ 5,711,182.09

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM**

For Year Ended June 30, 2004

	Low Rent Program	Capital Fund Program
Operating Revenues:		
Rental revenue	\$ 254,326.74	\$ -----
Operating subsidies- HUD grants	520,343.00	61,276.57
Other revenues	<u>13,055.57</u>	<u>-----</u>
Total operating revenues	<u>787,725.31</u>	<u>61,276.57</u>
Operating Expenses:		
Personal services	304,773.24	14,178.36
Utilities	122,601.63	-----
Operations and maintenance	453,121.96	42,228.71
Insurance	77,339.84	-----
Payment in lieu of taxes	12,489.20	-----
Other supplies and expenses	168,773.86	4,869.50
Depreciation	<u>462,069.43</u>	<u>5,695.17</u>
Total operating expenses	<u>1,601,169.16</u>	<u>66,971.74</u>
Operating income (loss)	<u>(813,443.85)</u>	<u>(5,695.17)</u>
Non-operating revenues (expenses):		
Interest and investment earnings	<u>1,320.45</u>	<u>-----</u>
Net non-operating revenues (expenses)	<u>1,320.45</u>	<u>-----</u>
Change in net assets	(812,123.40)	(5,695.17)
Net assets at beginning of year	5,748,131.61	397,983.35
Equity transfers	<u>319,992.54</u>	<u>(312,555.87)</u>
Net assets at end of year	\$ <u><u>5,256,000.75</u></u>	\$ <u><u>79,732.31</u></u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM (CONTINUED)For Year Ended June 30, 2004

	PIH Drug Program	Totals
Operating Revenues:		
Rental revenue	\$ -----	\$ 254,326.74
Operating subsidies- HUD grants	-----	581,619.57
Other revenues	-----	13,055.57
	<u>-----</u>	<u>849,001.88</u>
Operating Expenses:		
Personal services	-----	318,951.60
Utilities	-----	122,601.63
Operations and maintenance	-----	495,350.67
Insurance	-----	77,339.84
Payment in lieu of taxes	-----	12,489.20
Other supplies and expenses	-----	173,643.36
Depreciation	-----	467,764.60
	<u>-----</u>	<u>1,668,140.90</u>
Total operating expenses	-----	1,668,140.90
Operating income (loss)	-----	(819,139.02)
Non-operating revenues (expenses):		
Interest and investment earnings	-----	1,320.45
	<u>-----</u>	<u>1,320.45</u>
Net non-operating revenues (expenses)	-----	1,320.45
Change in net assets	-----	(817,818.57)
Net assets at beginning of year	7,436.67	6,153,551.63
Equity transfers	<u>(7,436.67)</u>	<u>-----</u>
Net assets at end of year	\$ <u>-----</u>	\$ <u>5,335,733.06</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For Year Ended June 30, 2004

	Low Rent Program	Capital Fund Program
Cash flows from operating activities:		
Cash received from tenants	\$ 257,795.59	\$ -----
Cash received from HUD grants- operating	520,343.00	61,276.57
Cash received from other operating activities	14,683.93	-----
Cash payments for goods and services	(763,467.55)	(47,098.21)
Cash payments to employees-salaries	(235,408.25)	(12,900.75)
Cash payments to employees-compensated absences	1,606.00	-----
Cash payments for employee benefit contributions	<u>(71,958.34)</u>	<u>(1,277.61)</u>
Net cash provided (used) by operating activities	<u>(276,405.62)</u>	<u>-----</u>
Cash flows from capital and related financing activities:		
Capital contributions	-----	109,550.66
Receipts (payments) from interprograms	<u>109,550.66</u>	<u>(109,550.66)</u>
Net cash (used) for capital and related financing activities	<u>109,550.66</u>	<u>-----</u>
Cash flows from investing activities:		
Proceeds from sale of (payments) for investments	(1,164.25)	-----
Interest and dividends	1,320.45	-----
Receipts (payments) from tenant security deposits	<u>(1,156.00)</u>	<u>-----</u>
Net cash provided (used) from investing activities	<u>(999.80)</u>	<u>-----</u>
Net increase (decrease) in cash and cash equivalents	(167,854.76)	-----
Cash and cash equivalents at beginning of year	<u>246,224.64</u>	<u>-----</u>
Cash and cash equivalents at end of year	\$ <u><u>78,369.88</u></u>	\$ <u><u>-----</u></u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2004

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (813,443.85)	\$ (5,695.17)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	462,069.43	5,695.17
Allowance for doubtful accounts	(10,652.36)	----
Changes in assets and liabilities:		
Receivables	15,998.78	----
Prepaid expenses	35,716.83	----
Accounts and other payables	35,142.11	----
Deferred revenues	(249.21)	----
Compensated absences	1,606.00	----
Accrued expenses	<u>(2,593.35)</u>	<u>----</u>
Net cash provided (used) by operating activities	<u>\$ (276,405.62)</u>	<u>\$ ----</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2004

	PIH Drug Program	Totals
Cash flows from operating activities:		
Cash received from tenants	\$ ----	\$ 257,795.59
Cash received from HUD grants- operating	----	581,619.57
Cash received from other operating activities	----	14,683.93
Cash payments for goods and services	----	(810,565.76)
Cash payments to employees-salaries	----	(248,309.00)
Cash payments to employees-compensated absences	----	1,606.00
Cash payments for employee benefit contributions	----	(73,235.95)
Net cash provided (used) by operating activities	----	(276,405.62)
Cash flows from capital and related financing activities:		
Capital contributions	----	109,550.66
Net cash (used) for capital and related financing activities	----	109,550.66
Cash flows from investing activities:		
Proceeds from sale of (payments) for investments	----	(1,164.25)
Interest and dividends	----	1,320.45
Receipts (payments) from tenant security deposits	----	(1,156.00)
Net cash provided (used) from investing activities	----	(999.80)
Net increase (decrease) in cash and cash equivalents	----	(167,854.76)
Cash and cash equivalents at beginning of year	----	246,224.64
Cash and cash equivalents at end of year	\$ ----	\$ 78,369.88

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2004

	<u>PIH Drug Program</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ -----	\$ (819,139.02)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	-----	467,764.60
Allowance for doubtful accounts	-----	(10,652.36)
Changes in assets and liabilities:		
Receivables	-----	15,998.78
Prepaid expenses	-----	35,716.83
Accounts and other payables	-----	35,142.11
Deferred revenues	-----	(249.21)
Compensated absences	-----	1,606.00
Accrued expenses	-----	(2,593.35)
	<u>-----</u>	<u>-----</u>
Net cash provided (used) by operating activities	<u>\$ -----</u>	<u>\$ (276,405.62)</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NOTES TO THE SCHEDULE OF FEDERAL AWARDS**

Year Ended June 30, 2004

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal Year</u>	<u>Federal Grantor</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	Public and Indian Housing		
	<u>Major - Direct Program</u>		
2004	Low Rent Program	14.850a	\$ <u>520,343.00</u>
	Public and Indian Housing		
	<u>Nonmajor - Direct Program</u>		
2004	Capital Fund program	14.872	\$ <u>61,276.57</u>
	Total		\$ <u>581,619.57</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1 - Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

**PHA'S STATEMENT AND CERTIFICATION OF
CAPITAL FUND PROGRAM COSTS**

June 30, 2004

1. Actual Capital Fund Program costs are as follows:

	<u>CFP 501-01</u>
Funds approved	\$ 376,460.00
Funds expended	<u>376,460.00</u>
Excess of Funds Approved	\$ <u>-----</u>
 Funds advanced	 \$ 376,460.00
Funds expended	<u>376,460.00</u>
Excess (deficiency) of Funds Advanced	\$ <u>-----</u>

2. The costs as shown on the Actual Cost Certificate dated November 16, 2005 submitted to HUD for approval is in agreement with the PHA's records as of June 30, 2004.
3. All costs have been paid and all related liabilities have been discharged through payments.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

**PHA'S STATEMENT AND CERTIFICATION OF
CAPITAL FUND PROGRAM COSTS**

June 30, 2004

1. Actual Capital Fund Program costs are as follows:

	<u>CFP 501-02</u>
Funds approved	\$ 357,515.00
Funds expended	<u>357,515.00</u>
Excess of Funds Approved	\$ <u> </u>
Funds advanced	\$ 357,515.00
Funds expended	<u>357,515.00</u>
Excess (deficiency) of Funds Advanced	\$ <u> </u>

2. The costs as shown on the Actual Cost Certificate dated November 16, 2005 submitted to HUD for approval is in agreement with the PHA's records as of June 30, 2004.
3. All costs have been paid and all related liabilities have been discharged through payments.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2004

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872
	Assets:		
	Current Assets:		
	Cash		
111	Cash-unrestricted	\$ 78,369.88	\$ -----
100	Total cash	<u>78,369.88</u>	<u>-----</u>
	Accounts and notes receivable:		
122	Accounts receivable-HUD	-----	9,786.79
126	Accounts receivable- tenants-dwelling rents	12,860.32	-----
126.1	Allowance for doubtful accounts-dwelling rents	<u>(1,204.00)</u>	<u>-----</u>
120	Total receivables, net of allowance for doubtful accounts	<u>11,656.32</u>	<u>9,786.79</u>
	Current investments:		
131	Investments-unrestricted	100,700.58	-----
142	Prepaid expenses and other assets	5,102.00	-----
144/ (347)	Interprogram due from	<u>9,786.79</u>	<u>(9,786.79)</u>
150	Total current assets	<u>205,615.57</u>	<u>-----</u>
	Noncurrent Assets:		
	Fixed assets:		
161	Land	494,046.82	-----
162	Buildings	10,313,627.25	85,427.48
163	Furniture, equipment and machinery-dwellings	142,487.39	-----
164	Furniture, equipment and machinery-administration	263,394.18	-----
165	Leasehold improvements	1,666,388.23	-----
166	Accumulated depreciation	<u>(7,454,109.66)</u>	<u>(5,695.17)</u>
160	Total fixed assets, net of accumulated depreciation	<u>5,425,834.21</u>	<u>79,732.31</u>
180	Total noncurrent assets	<u>5,425,834.21</u>	<u>79,732.31</u>
190	Total Assets	<u>\$ 5,631,449.78</u>	<u>\$ 79,732.31</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872
	Liabilities and Equity:		
	Liabilities:		
	Current Liabilities:		
312	Accounts payable < 90 days	\$ (301,740.71)	\$ ----
321	Accrued wage / payroll taxes payable	(11,451.56)	----
322	Accrued compensated absences- current portion	(4,448.00)	----
333	Accounts payable -other government	(26,057.53)	----
341	Tenant security deposits	(29,712.00)	----
342	Deferred revenues	(2,039.23)	----
310	Total current liabilities	(375,449.03)	----
300	Total liabilities	(375,449.03)	----
	Equity:		
508.1	Investment in capital assets , Net of Related Debt	(5,425,834.21)	(79,732.31)
512.1	Unrestricted Net Assets	169,833.46	----
600	Total Liabilities and Equity	\$ (5,631,449.78)	\$ (79,732.31)
	Revenue:		
703	Net rental revenue	\$ (257,891.23)	\$ ----
705	Total tenant revenue	(257,891.23)	----
706	HUD PHA operating grants	(520,343.00)	(61,276.57)
711	Investment income-unrestricted	(1,320.45)	----
715	Other revenue	(13,055.57)	----
700	Total revenue	(792,610.25)	(61,276.57)
	Expenses:		
	Administrative		
911	Administrative salaries	119,491.12	12,900.75
912	Auditing fees	4,590.00	----
915	Employee benefit contributions-administrative	36,533.76	1,277.61
916	Other operating-administrative	106,066.57	4,869.50

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

FDS Line Item No.		Low Rent Program 14.850a	Capital Fund Program 14.872
	Tenant services		
921	Tenant services-salaries	3,305.28	----
924	Tenant services-other	58,117.29	----
	Utilities		
931	Water	85,049.55	----
932	Electricity	18,396.33	----
933	Gas	19,155.75	----
	Ordinary maintenance and operation		
941	Ordinary maintenance and operation-labor	96,397.65	----
942	Ordinary maintenance and operation-materials & other	97,853.46	----
943	Ordinary maintenance and operation-contract costs	351,472.53	42,228.71
945	Employee benefit contributions-ordinary maintenance	35,424.58	----
	Protective services		
952	Protective services-other contract costs	3,795.97	----
	General expenses		
961	Insurance premiums	77,339.84	----
963	Payments in lieu of taxes	12,489.20	----
964	Bad debts- tenant rents	3,564.49	----
968	Severance expense	13,620.85	----
969	Total operating expenses	<u>1,142,664.22</u>	<u>61,276.57</u>
970	Excess (deficit) operating revenue over operating expenses	<u>(350,053.97)</u>	<u>----</u>
974	Depreciation expense	<u>462,069.43</u>	<u>5,695.17</u>
	Total expenses other than total operating	<u>462,069.43</u>	<u>5,695.17</u>
1000	Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	<u>(812,123.40)</u>	<u>(5,695.17)</u>
	Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	\$ <u>(812,123.40)</u>	\$ <u>(5,695.17)</u>

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

FDS Line Item No.		PIH Drug Program 14.854	Total
	Assets:		
	Current Assets:		
	Cash		
111	Cash-unrestricted	\$ -----	\$ 78,369.88
100	Total cash	-----	78,369.88
	Accounts and notes receivable:		
122	Accounts receivable-HUD	-----	9,786.79
126	Accounts receivable- tenants-dwelling rents	-----	12,860.32
126.1	Allowance for doubtful accounts-dwelling rents	-----	(1,204.00)
120	Total receivables, net of allowance for doubtful accounts	-----	21,443.11
	Current investments:		
131	Investments-unrestricted	-----	100,700.58
142	Prepaid expenses and other assets	-----	5,102.00
150	Total current assets	-----	205,615.57
	Noncurrent Assets:		
	Fixed assets:		
161	Land	-----	494,046.82
162	Buildings	-----	10,399,054.73
163	Furniture, equipment and machinery-dwellings	-----	142,487.39
164	Furniture, equipment and machinery-administration	-----	263,394.18
165	Leasehold improvements	-----	1,666,388.23
166	Accumulated depreciation	-----	(7,459,804.83)
160	Total fixed assets, net of accumulated depreciation	-----	5,505,566.52
180	Total noncurrent assets	-----	5,505,566.52
190	Total Assets	\$ -----	\$ 5,711,182.09

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

FDS Line Item No.	PIH Drug Program 14.854	Total
Liabilities and Equity:		
Liabilities:		
Current Liabilities:		
312 Accounts payable < 90 days	\$ ----	\$ (301,740.71)
321 Accrued wage / payroll taxes payable	----	(11,451.56)
322 Accrued compensated absences- current portion	----	(4,448.00)
333 Accounts payable -other government	----	(26,057.53)
341 Tenant security deposits	----	(29,712.00)
342 Deferred revenues	----	(2,039.23)
	<u>----</u>	<u>----</u>
310 Total current liabilities	----	(375,449.03)
	<u>----</u>	<u>----</u>
300 Total liabilities	----	(375,449.03)
	<u>----</u>	<u>----</u>
Equity:		
508.1 Investment in capital assets , Net of Related Debt	----	(5,505,566.52)
	<u>----</u>	<u>----</u>
512.1 Unrestricted Net Assets	----	169,833.46
	<u>----</u>	<u>----</u>
600 Total Liabilities and Equity	\$ <u>----</u>	\$ <u>(5,711,182.09)</u>
	<u>----</u>	<u>----</u>
Revenue:		
703 Net rental revenue	\$ <u>----</u>	\$ <u>(257,891.23)</u>
	<u>----</u>	<u>----</u>
705 Total tenant revenue	----	(257,891.23)
	<u>----</u>	<u>----</u>
706 HUD PHA operating grants	----	(581,619.57)
711 Investment income-unrestricted	----	(1,320.45)
715 Other revenue	----	(13,055.57)
	<u>----</u>	<u>----</u>
700 Total revenue	----	(853,886.82)
	<u>----</u>	<u>----</u>
Expenses:		
Administrative		
911 Administrative salaries	----	132,391.87
912 Auditing fees	----	4,590.00
915 Employee benefit contributions-administrative	----	37,811.37
916 Other operating-administrative	----	110,936.07

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

FDS Line Item No.		PIH Drug Program 14.854	Total
	Tenant services		
921	Tenant services-salaries	----	3,305.28
924	Tenant services-other	----	58,117.29
	Utilities		
931	Water	----	85,049.55
932	Electricity	----	18,396.33
933	Gas	----	19,155.75
	Ordinary maintenance and operation		
941	Ordinary maintenance and operation-labor	----	96,397.65
942	Ordinary maintenance and operation-materials & other	----	97,853.46
943	Ordinary maintenance and operation-contract costs	----	393,701.24
945	Employee benefit contributions-ordinary maintenance	----	35,424.58
	Protective services		
952	Protective services-other contract costs	----	3,795.97
	General expenses		
961	Insurance premiums	----	77,339.84
963	Payments in lieu of taxes	----	12,489.20
964	Bad debts- tenant rents	----	3,564.49
968	Severance expense	----	13,620.85
969	Total operating expenses	-----	1,203,940.79
970	Excess (deficit) operating revenue over operating expenses	-----	(350,053.97)
974	Depreciation expense	-----	467,764.60
	Total expenses other than total operating	-----	467,764.60
1000	Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	-----	(817,818.57)
	Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	\$ -----	\$ (817,818.57)

**Report on Compliance and on Internal Control Over Financial Reporting Based
on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Commissioners
City of Ecorse Housing Commission
Ecorse, Michigan

We have audited the financial statements of the City of Ecorse Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 16, 2005 which was qualified because of the weak condition of the Commission's records as they relate to invoices and other supporting accounting records and the Commission's management refusal to sign the client representation letter and the attorney representation letter was not received. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

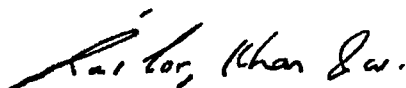
In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

Sailor

Khan & Co.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe of the reportable conditions described above we consider finding number 6 to be a material weakness.

This report is intended for the information of the City of Ecorse Housing Commission, Michigan's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co.
November 16, 2005

Sailor Khan & Co.

Certified Public Accountants

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Commissioners
City of Ecorse Housing Commission
Ecorse, Michigan

Compliance

We have audited the compliance of the City of Ecorse Housing Commission, Michigan, (Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Commission's major federal programs are identified in the schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

Except for the matters noted in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

As described in finding number 7 in the accompanying schedule of findings and questioned costs the Commission did not comply with requirements regarding Other Compliance Requirements that are applicable to its Public and Indian Housing - Low Rent Program and Capital Fund Program. Compliance with such requirements is necessary, in our opinion, for the Commission to comply with requirements applicable to that program.

In our opinion, except for the matters discussed in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

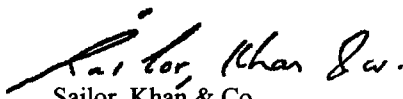
Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal program. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe of the reportable conditions described above we consider finding number 7 to be a material weakness.

This report is intended for the information of the City of Ecorse Housing Commission, Michigan's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


Sailor, Khan & Co.
November 16, 2005

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2004

The prior audit report for the year ended June 30, 2003 contained a total of eight audit findings:

Financial Statement Findings

1. **Finding:** Excessive Tenant Accounts Receivable.
 Status: No longer applicable
2. **Finding:** Budget Overruns.
 Status: Not Implemented - see current finding #3
3. **Finding:** Excessive Water Bill.
 Status: Not Implemented - see current finding #4
4. **Finding:** Minutes Not Signed.
 Status: Implemented
5. **Finding:** Unlocated information.
 Status: Not Implemented - see current finding #6

Federal Awards Findings

6. **Finding:** Unlocated information (Identical to Financial Finding #5)
 Status: Not Implemented - see current finding #7
7. **Finding:** Bank Collateral.
 Status: Implemented
8. **Finding:** Tenant Files.
 Status: Implemented

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2004

SECTION I - SUMMARY OF AUDITOR RESULTS

Financial Statement:

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
▶ Material weakness(es) identified?	Yes
▶ Reportable condition(s) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes
Is a "going concern" explanatory paragraph included in audit report?	No

Federal Awards:

Internal control over major programs:	
▶ Material weakness(es) identified?	Yes
▶ Reportable condition(s) identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) on Circular A-133?	Yes
Identification of major programs:	

CFDA

Number(s) Name of Federal Program

14-850a	Public and Indian Housing - Low Rent Program
14-872	Public and Indian Housing - Capital Fund Program

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended June 30, 2004 disclosed the following Financial Statement audit findings:

1. Tenant Accounts Receivable and Security Deposit.

Criteria:

Maintaining an accurate sub-ledger allows for accurate reporting of balances in the general ledger.

Condition:

The tenant subsidiary ledger did not agree with the general ledger.

Questioned Costs:

None

Effect:

The balances of tenant accounts receivable, tenant prepaid rent and security deposits may be incorrect because there is no reconciliation performed between the subsidiary and general ledger.

Cause:

Monthly reconciliations between the general ledger and the subsidiary tenant ledger is not being performed.

Recommendation:

We recommend that subsidiary ledgers should be adequately maintained and reconciled with the general ledger monthly.

Management's Response:

The new Director has implemented a plan to reconcile all tenant ledgers and security deposit.

Action Plan:

All deposits are specified by other income, security deposits and tenant rental payments. Necessary information on the items are forwarded to the accountant. Prior ledgers were not being documented monthly and placed in the proper file. Our present accountant now realize that certain information is needed in order to maintain monthly ledgers in ordered to reconcile data.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2. Fixed Asset Inventory and Capitalization Policy

Criteria:

The Housing Commission must capitalize only those items costing \$500 or more.

Condition:

Upon review of the Housing Commission's fixed asset inventory listing, we noted the PHC capitalized several furniture, equipment, and machinery items costing less than \$500.

Questioned Costs:

None

Effect:

The Housing Commission is not in compliance with its capitalization policy. Fixed assets and related depreciation may be incorrect.

Cause:

Appropriate supervision was not in place to ensure that items costing less than \$500 were not capitalized.

Recommendation:

The Housing Commission must capitalize only those items individually costing \$500 or more. We recommend that the Housing Commission review its depreciation schedule to identify the necessary adjustments that will ensure proper capitalization of expenditures.

Management's Response:

Plan in place. Prior administration did not have the correct inventory listing.

Action Plan:

All fixed assets have been identified and placed in our Fixed Asset System. Each item has been listed, with the proper identity number. The Maintenance Supervisor is presently placing the cost of items, so they may be compiled to the total cost. Items that were placed as unusable, have been placed on our Disposition Lists for sale. Items costing less than \$500 will be properly capitalized.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

3. Budget Overruns

Criteria:

The Housing Commission must operate within budget constraints.

Condition:

We noted the following budget overruns for fiscal year ended June 30, 2004:

<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Overruns</u>
Administrative	\$ 191,770.00	\$ 230,147.69	\$ 38,377.69
Tenant Services	5,000.00	61,422.57	56,422.57
Utilities	89,690.00	122,601.63	32,911.63
General Expense	271,700.00	545,723.64	274,023.64
Public Services	3,060.00	3,795.97	735.97
Total Operating Expenditures	770,319.00	1,140,074.87	369,755.87

Questioned Costs:

None

Effect:

The Housing Commission exceeded the operating budget in the aforementioned categories.

Cause:

The Housing Commission did not ensure that these budget categories were not exceeded.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

3. Budget Overruns (Continued)

Recommendation:

We recommend that the Housing Commission place greater emphasis on operating within the budget constraints. Also, when it appears that the current budget has become insufficient, the Housing Commission must prepare a budget revision.

Management's Response:

Prior administration did not take any action to stay within the budget

Action Plan:

We now have our monthly expenditures controlled by keeping a report available (monthly) to oversee our expenditures, if we begin to near the amount allocated in the budget, we will cut back on other items to assure there aren't any overruns, then revise the budget. The 2005 budget also have overrun items. I am anticipating no overruns.

The Director is made aware of all purchases, utility cost, and other expenses.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

4. Excessive Water Bill.

Criteria:

Financial obligation must be liquidated in a timely manner. Also, all liability recorded on the books must be supported by sufficient documentation.

Condition:

We noted that a large liability continues to exist to the City of Ecorse for unpaid water charges from prior years.

Questioned Costs:

None.

Effect:

This could create an adverse financial cash position if the Housing Commission were immediately required to liquidate this liability.

Cause:

The Housing Commission believes that it has been overcharged by the City of Ecorse for water for various units over the past few years. Partial payment was made in fiscal year 2003, however, there was no supporting documentation for such payment.

Recommendation:

We recommend the Commission establish a plan of action whereby the dispute between the Housing Commission and the City of Ecorse can be settled and all liability liquidated in a timely manner.

Management's Response:

Prior administration accepted whatever the Ecorse Water Department submitted for our accounts.

Action Plan:

The Director questions any enormous water accounts. If there are questionable accounts they are returned to the Water Department to be certain these have the correct readings. One account has been reduced \$54,000 because of the persistence of the Director. Ninety five per cent of all outside faucets have been shut off to conserve water because they have been constantly for years.

We have in place an Excessive Water Amount fee that will be charged to the tenant who are abusing the water limit cost.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

5. Bank Reconciliation

Criteria:

The Housing Commission must prepare accurate monthly bank reconciliations.

Condition:

Upon review of the Housing Commission's bank reconciliation we noted numerous checks had been voided, but were recorded as outstanding.

Questioned Costs:

None

Effect:

The book balance of cash was not accurately presented.

Cause:

Appropriate supervision was not in place to ensure voided checks were accounted for properly.

Recommendation:

The Housing Commission must adjust for outstanding checks as they are voided or written off. We recommend the Housing Commission review their bank reconciliations monthly for accuracy.

Management's Response:

The prior administration did not reconcile any bank transaction.

Action Plan:

The Director have all checks file monthly in sequence, along with voided checks, all interest on our accounts will be posted monthly, each check used particularly for that month will be filed in monthly folder. Checks had been placed in a vendor's file and everywhere else. The office staff was informed that all filing must be in its proper place.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2004

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

6. Unlocated information

Criteria:

Requested information should be readily available for audit examination.

Condition:

We noted that the Housing Commission could not locate a significant portion of documents needed to complete the audit. Information we requested which the Housing Commission could not locate included the following:

- ▶ Supporting documentation for FY 2004 PHAS Submission
- ▶ Various contract and Davis Bacon Payroll information for work performed during FY 2004
- ▶ Certain Invoices
- ▶ Vacation time logs for employees

Questioned Costs:

None

Effect:

Integrity of financial statement items is questionable.

Cause:

The Housing Commission had not placed adequate controls.

Recommendation:

We recommend the Housing Commission place greater emphasis in maintaining its records.

Management's Response:

Prior administration did not train staff the proper way to file, records were everywhere.

Action Plan:

All office staff have been trained on the proper way to maintain records. They were also informed that everyone in the office must know how to located certain information when asked

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2004

SECTION III - FEDERAL AWARD FINDINGS

The current audit report for the year ended June 30, 2004 disclosed the following Federal Awards audit findings:

7. Unlocated information (Identical as Financial Statement finding #6)

Federal Program:

14.850a - Public and Indian Housing - Low Rent Program

14.872 - Public and Indian Housing - Capital Fund Program

Criteria:

Requested information should be readily available for audit examination.

Condition:

We noted that the Housing Commission could not locate a significant portion of documents needed to complete the audit. Information we requested which the Housing Commission could not locate included the following:

- ▶ Supporting documentation for FY 2004 PHAS Submission
- ▶ Various contract and Davis Bacon Payroll information for work performed during FY 2004
- ▶ Certain Invoices
- ▶ Vacation time logs for employees

Questioned Costs:

None

Effect:

Integrity of financial statement items is questionable.

Cause:

The Housing Commission had not placed adequate controls.

Recommendation:

We recommend the Housing Commission place greater emphasis in maintaining its records.

CITY OF ECORSE HOUSING COMMISSION

Ecorse, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2004

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

7. Unlocated information (Continued)

Management's Response:

Prior administration did not train staff the proper way to file, records were everywhere.

Action Plan:

Capital Funding in one folder for each FYE with all required information

All Federal Submission are on record

Vacation logs in place.

Invoices are placed with the proper check for payment and filed.

The greatest problem the Executive Director have discovered in the office, no one was aware of the proper procedures for mainstring certain records. The Executive Director is now trying to keep this under control, proper record keeping is very important.

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LOCAL AUDIT & FINANCE DIV.

CITY OF ECORSE HOUSING COMMISSION
Management's Discussion and Analysis (MD&A)
June 30, 2004

INTRODUCTION

The City of Ecorse Housing Commission (the Commission) is a non-profit entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal Agencies.

The Commission presents this discussion and analysis of its financial performance during the fiscal year (FY) ended June 30, 2004, to assist the reader in focusing on significant financial issues and concerns. The Commission's FY2004 annual financial report consists of two parts - the management's discussion and analysis, and the basic financial statements (which include notes to those financial statements).

Management's Discussion and Analysis
Basic Financial Statement and Notes to the Financial Statements

The primary focus of the Commission's financial statements is on the financial statements of a single business-type activity that combines two programs administered by the Commission. A separate column in the financial statements also shows the transactions of the Commission's Capital Fund component.

The financial results of the discretely presented component units are not addressed in this discussion and analysis.

FINANCIAL HIGHLIGHTS FOR FY2004

The Commission's FY2004 major financial highlights included the following:

- Total assets and liabilities of the Commission were approximately \$5.7 million and \$375 thousand respectively; thus total net assets were approximately \$5.3 million at June 30, 2004. Total revenues (including capital contributions) and expenses were approximately \$849 thousand and \$1.6 million, respectively; thus net assets decreased by approximately \$818 thousand during the fiscal year.
- Revenues are derived from approximately 29% from tenant's payment of \$254 thousand, 69% or \$582 thousand received from the U.S. Department of Housing and Urban Development (HUD) and 2% or \$13 thousand from other operating activities.

CITY OF ECORE HOUSING COMMISSION

Management's Discussion and Analysis (MD&A)

June 30, 2004

FINANCIAL HIGHLIGHTS FOR FY2004 (Continued)

- Cash flows from operating activities were a negative \$276,405. The decrease in cash and cash equivalents for the year was approximately \$167,854, primarily due to the decrease in operating activities.

COMMISSION FINANCIAL STATEMENTS

The Commission's mission in the City focuses on the planning, design, construction, preservation, rehabilitation, financing, and management of housing, primarily for low- and moderate-income households in the City of Ecore. The Commission, as of June 30, 2004, owned 200 residential units that are leased to low-income families and individuals. Approximately 171 units or 85.6% of the units were rented at the rental roll date of July 1, 2005. In addition, housing assistance was being paid under the Federal Housing Choice Voucher and Mod Rehab programs for privately-owned existing housing.

In view of this mission, the Commission's financial reporting objective under GASB Statement No. 34, as amended, focuses on the financial activities of the Commission as a whole.

Basic Financial Statements

The Financial statements of the Commission is presenting its FY2004 discussion and analysis based on the financial results of its enterprise programs in three basic financial statements, the balance sheet, the statement of revenues, expenses and changes in net assets and the statement of cash flows. The balance sheet reports all financial and capital assets of the Commission and is presented in a format where assets equal liabilities plus net assets, formerly known as fund equity. Net assets are broken down into the following three categories.

- *Net assets, invested in capital assets, net of related debt* consists of all capital assets net of accumulated depreciation, reduced by the outstanding balances of current debt that is attributable to the acquisition renovation or improvement of these assets.
- *Restricted net assets* consists of assets that are restricted by constraints placed on the asset by external parties, such as, creditors, grantors, contributors, laws, or regulations reduced by liabilities payable from such assets.
- *Unrestricted net assets* consists of net assets that do not meet the definition of *net assets invested in capital assets, net of related debt*, or *restricted net assets*.

The statement of revenues, expenses and changes in net assets (similar to an income statement) includes operating revenues, such as rental income; operating expenses, such as administrative, utilities, maintenance, depreciation; and nonoperating revenues and expenses, such as nonprogram grant revenue, investment income, interest expense, and capital contributions. The statement's focus is the change in net assets, which is similar to net income or loss.

Finally, a statement of cash flows is included, which discloses net cash flows from operating activities, capital and related financing activities, investing activities and non-capital financing activities.

CITY OF ECORSE HOUSING COMMISSION

Management's Discussion and Analysis (MD&A)

June 30, 2004

These basic financial statements utilize the economic resources measurement focus and the full accrual basis of accounting. Under the full accrual basis of accounting, revenues are recognized in the period they are earned and expenses in the period when they are incurred.

These financial statements represent two programs and activities. Both of these programs are financed by federal grants from HUD, rents, and other user charges resulting from operations of subsidized housing.

Net Assets

The following table reflects the Commission's condensed summary of the balance sheet:

Table 1
Summary of Balance Sheet
As of June 30, 2004 and 2003
(In thousands)

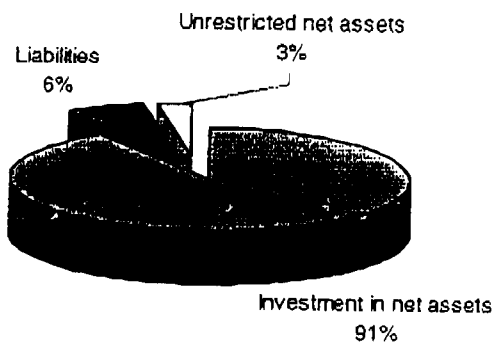
Description	2004	2003	Change	% Change
Current and other assets	\$ 206	\$ 522	\$ (316)	(60.54)
Capital assets, net of accumulated depreciation	5,505	5,973	(468)	(2.55)
Total Assets	5,711	6,495	(784)	(7.52)
Current liabilities	376	342	34	9.66
Long-term liabilities	-	-	-	-
Total liabilities	375	342	34	9.66
Net assets:				
Invested in capital assets, net of related debt	5,505	5,973	(468)	(7.84)
Restricted for capital projects	(170)	180	(349)	(193.89)
Unrestricted				
Total net assets	\$ 5,335	\$ 6,153	\$ (817)	(13.27)

Investments in capital assets comprise about 62 % of the Commission's total assets, these assets do not carry related long-term debt its total liabilities. Current and other assets decreased by \$316 thousands during 2004 due primarily to deficit in operational \$276 thousand dollars which was funded primarily by the utilization of cash and its equivalents.

CITY OF ECORSE HOUSING COMMISSION**Management's Discussion and Analysis (MD&A)**

June 30, 2004

The Commission's net assets also consist of restricted and unrestricted net assets. Restricted net assets include cash and investments restricted for loan loss and future capital projects liabilities that will be paid from these restricted assets. Unrestricted net assets would include cash in the bank, receivables net of allowances, and other assets less all other liabilities not previously applied. The following graph illustrates the relative percentage of the Commission's net assets invested in capital assets, net of related debt and net assets that are restricted and unrestricted.

**Commission's Net Assets
As of June 30, 2004****Revenues, Expenses and Changes in Net Assets**

The results of the Commission's operations are reported in the statement of revenues, expenses and changes in net assets. In FY2004, the Commission realized a decrease in net assets of approximately \$547 thousand. Table 2 on page 5 presents a condensed summary of data from the Commission's statement of revenues, expenses and changes in net assets.

CITY OF ECORSE HOUSING COMMISSION

Management's Discussion and Analysis (MD&A)

June 30, 2004

Table 2
Summary of Revenues, Expenses and changes in Net Assets
Years Ended June 30, 2004 and 2003
(in thousands)

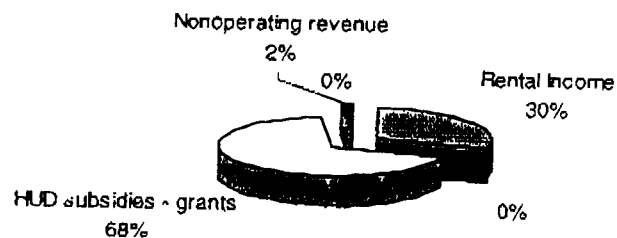
<u>Description</u>	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>% Change</u>
Operating revenues:				
Rental Income	\$ 254	\$ 272	\$ (17)	(6)
Operating subsidies – HUD grants	581	699	(117)	(17)
Non-operating revenue	13	15	(2)	(14)
Total revenues	<u>\$ 849</u>	<u>\$ 986</u>	<u>\$ (137)</u>	<u>(14)</u>
Expenses:				
Operating expenses:				
Administration	319	302	17	6
Utilities/maintenance	123	136	(13)	(10)
General and other expenses	495	308	187	61
Depreciation	263	245	18	7
Non-operating expenses	468	397	71	18
Total expenses	<u>\$ 1,668</u>	<u>\$ 1,387</u>	<u>\$ 281</u>	<u>.20</u>
Income (Loss) before Capital contributions	(819)	(401)	(418)	104
Capital contributions	-	140	(140)	(100)
Change in net assets	<u>(819)</u>	<u>(260)</u>	<u>(558)</u>	<u>(215)</u>
Net assets, beginning of year	6,154	6,414	(260)	4
Net assets, end of year	<u>\$ 5,335</u>	<u>\$ 6,153</u>	<u>\$ (818)</u>	<u>(13)</u>

CITY OF ECORSE HOUSING COMMISSION

Management's Discussion and Analysis (MD&A)

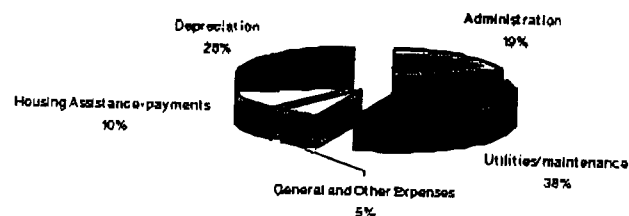
June 30, 2004

About 3% of the Commission's total revenues in FY2004 were non-operating revenues that are derived from HUD miscellaneous non-operating income. The remaining 97% were operating revenues derived from intergovernmental operating grants, rents and other user charges. The following graph illustrates the major sources of these revenues and related percentages.



Commission incurred expenses totaling \$1.6 million that are operating expenses related to its role as a housing omission. General and other program expenses include costs related to tenant and protective services and bad debts. The following graph illustrates these major expense groups and the percent of the total expense each represent.

Expenses Incurred in Fiscal Year 2004



CITY OF ECORSE HOUSING COMMISSION

Management's Discussion and Analysis (MD&A)

June 30, 2004

Capital Asset

The Commission's capital assets as of June 30, 2004, included land, buildings and improvements, equipment, and construction in progress that totaled approximately \$12.4 million (without accumulated depreciation), most of which is comprised of Public Housing units available for lease to low and moderate-income residents, construction in these Public Housing areas. A breakdown of these assets is shown in Table 3 below.

Table 3
Change in Capital Assets of the Commission

Description	(in thousands)			
	2004	2003	Change	% Change
Non-depreciable assets:				
Land	\$ 494	\$ 494	\$	
Other Capital assets:				
Building	10,399	10,313	(86)	(!)
Equipment	142	405	(263)	(65)
Furniture	263	375	112	30
Leasehold improvement	1,666	1,376	(290)	(21)
Accumulated depreciation	(7,459)	(6,992)	467	7
Totals	<u>\$ 5,505</u>	<u>\$ 5,971</u>	<u>\$ 466</u>	<u>8</u>

CONTACTING COMMISSION MANAGEMENT

This financial report is designed to provide the citizens of the City of Ecorse, taxpayers, customers, and investors and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Executive Director, City of Ecorse Housing Commission, 266 Hyacinth, Ecorse, MI 48229.